The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

REAL ESTATE ACTIVITY

National real estate activity has gotten off to a good start in 1956. Our index showing national real estate activity rose to 13.9 points above normal in January, from its December level of 11.5. This is the first rise in the index since last August, when it went up 1.2 points. Of the cities from which we gather real estate sales data, 60% showed better activity in January than in December. (This is not a seasonal rise because our index has had all seasonal bias removed.)

When compared with last January, however, the gains are not so widespread. Only 26% of the surveyed cities showed a higher activity in January 1956 than they did in January 1955. A few (20%) had virtually the same level. However, the remaining 54% recorded a lower level of activity than they did a year ago.

The biggest increases over the 12-month period were in Allentown, Pennsylvania, with a rise of 23% in activity, and in San Diego, with a rise of 17%. Substantial drops were experienced in San Antonio, where activity was 24% lower than a year ago, in Seattle, off 20%, and in Hartford, Connecticut, and Denver, off 18% each.

There have been no recent changes of enough significance to make us alter our views of the last 2 months. We think that 1956 is going to be another fine year for brokerage, but we're not telling the sales managers anything new when we say that the selling is going to be harder work. It will be several more years before selling gets as easy as it was in the late 1940's and early 1950's.

REAL ESTATE MORTGAGE ACTIVITY

Our mortgage activity index had a nice rise in January. It moved from 148.7 to 153.9, an increase of 5.2 points. This was likewise the first increase since last August, when it rose 1.9 points, and the biggest rise since the 5.8 point rise in January 1955.

There are definite signs that the mortgage money supply is increasing. Competition is becoming keener among lenders for good loans, although high discounts still prevail on older properties. An FHA report states that its loans are selling for an average of about 98.2 in the secondary market, a slight increase from 2 months earlier, and a reversal of the slow downward trend that has been in

effect since late 1954. We believe that the supply of money will continue to improve slowly.

Our index of the trend in recorded mortgage interest rates has also moved up for the second month in a row. This index is made up of average recorded interest rates in 12 major cities, and does not include the various points and discounts that have been so widespread during recent months. The rates shown below are, therefore, less than the rate the borrower actually pays. Since they are based on recordings, this index is also slower than the changes in the market which take place at the time the loan is negotiated rather than at the time the mortgage is recorded.

AVERAGE INTEREST RATE OF RECORDED MORTGAGES
IN 12 MAJOR CITIES OF THE UNITED STATES

Jan.	'54	5.187%	June	'55	5.052%
Apr.	'54	5.173	July	'55	5.050
July	'54	5.089	Aug.	'55	5.049
Oct.	'54	5.092	Sept.	'55	5.043
			Oct.	'55	5.055
Jan.	'55	5.045	Nov.	'55	5.051
Feb.	'55	5.070	Dec.	'55	5.066
Mar.	'55	5.087			
Apr.	'55	5.079	Jan.	'56	5.105
May	'55	5.044			

RESIDENTIAL CONSTRUCTION

It's hard to see where there is a slump in home building. To be sure, volume has been going down in recent months, but 1955 was the second highest year on record. Furthermore, the January 1956 level of 74,000 starts was higher than most Januaries in the past 5 years. Home building is certainly not so good as it was a year ago, and 1956 will probably see a decline from the 1955 level. Nevertheless, there is no reason to describe the decline in such extravagant terms, to prophesy such dire consequences from it, or to go to the extremes now recommended by the House Subcommittee on Housing.

This group has urged restoration of no downpayment FHA and VA loans, banning or controlling discounts on Government backed loans, and more direct lending to veterans. All of this is to be done to arrest the decline in home building. Two of these proposals are at cross-purposes. The biggest discounts in new home loans have been on those with the most liberal financing. It is virtually certain that the return to no downpayment loans will likewise bring back the high discounts. Apparently Congressmen never learn that price controls ultimately work to no one's benefit because an attempt to control or ban discounts is nothing more than an attempt at price control. Consequently, if the discounts are held too low or banned altogether, nobody will make the loans. This is apparently where the

direct lending program to veterans is expected to take over. None of this makes any sense except to politicians and to builders who have to sell houses to people who have no money. There probably isn't one veteran in a hundred who understands what's going on, but if a Congressman can make it sound as if he's helping the veteran (or the farmer, or labor), he'll get more votes than if he talked sense.

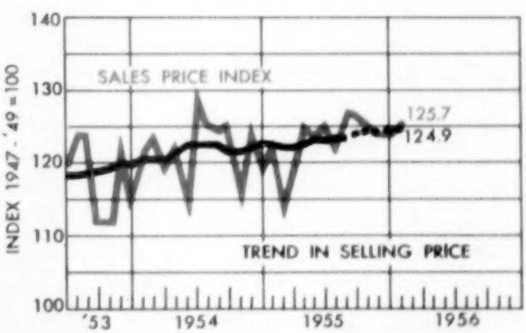
RESIDENTIAL BUILDING COSTS

A price drop in a few minor millwork items brought the cost of building our six-room frame house down to $17,254. Last month it was at an alltime high of $17,275. This $21 decrease is nothing to cause excitement but it does at least mark a temporary halt in the rise of residential construction costs. In the last year they have advanced more than 4%, and when the cost is in the $17,000 bracket, 4% is pretty important.

Strangely enough, a 2% downpayment requirement has evoked more comment and promoted more bitterness than the 4% rise in construction costs. This is because few people know or care about the sales price of a home. They want to know what the downpayment is and how much a month it costs. The 4% price increase is amortized over a 30-year period and becomes insignificant. The 2% downpayment is an immediate requirement and evidently a tremendous hardship.

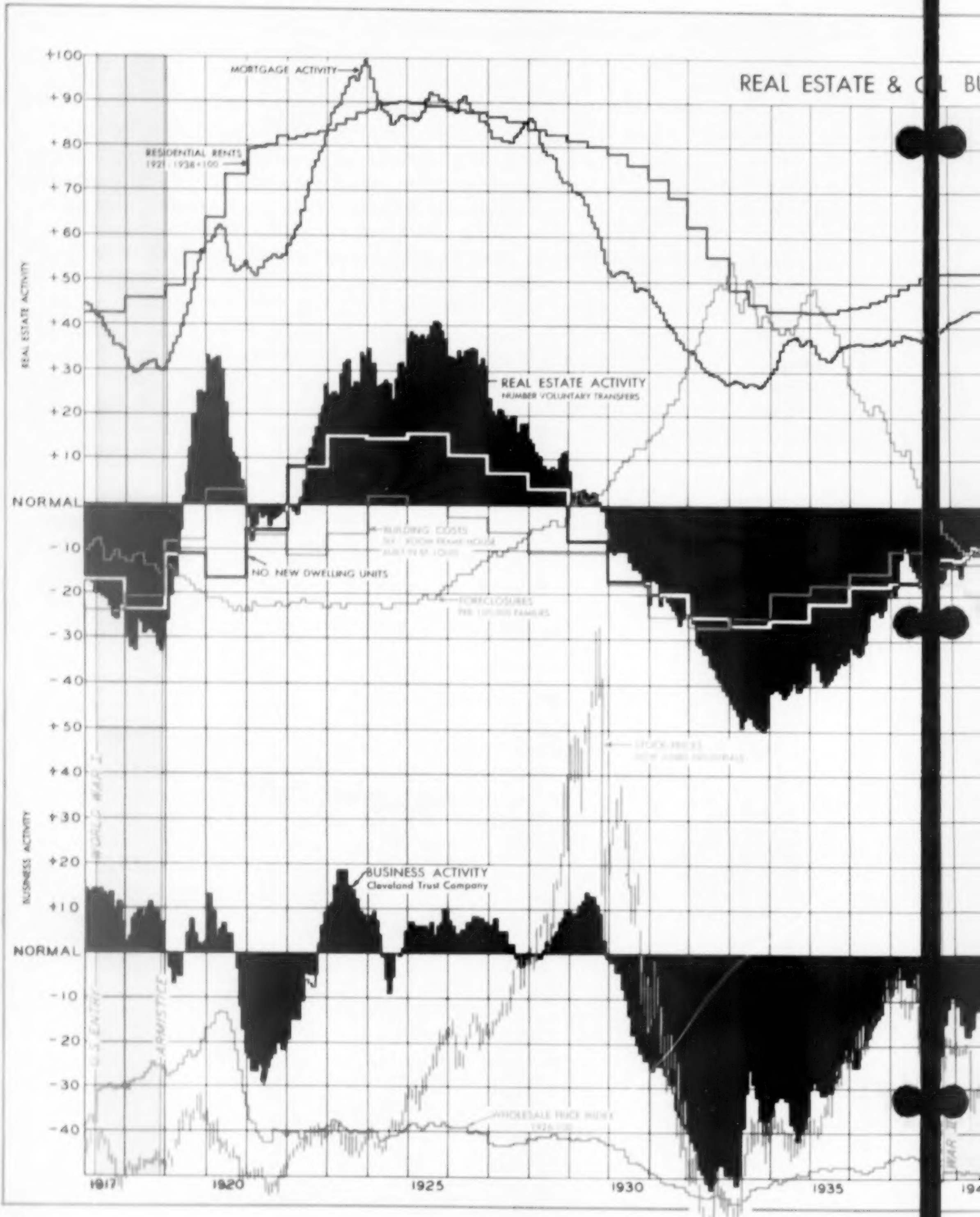
The chances are that construction costs will continue to increase during 1956. If they do, it will be partly because price rises are obscured or sugar-coated by financing terms that translate even a $1,000 differential into less than $6 per month.

REAL ESTATE SALES PRICE COMPARISONS

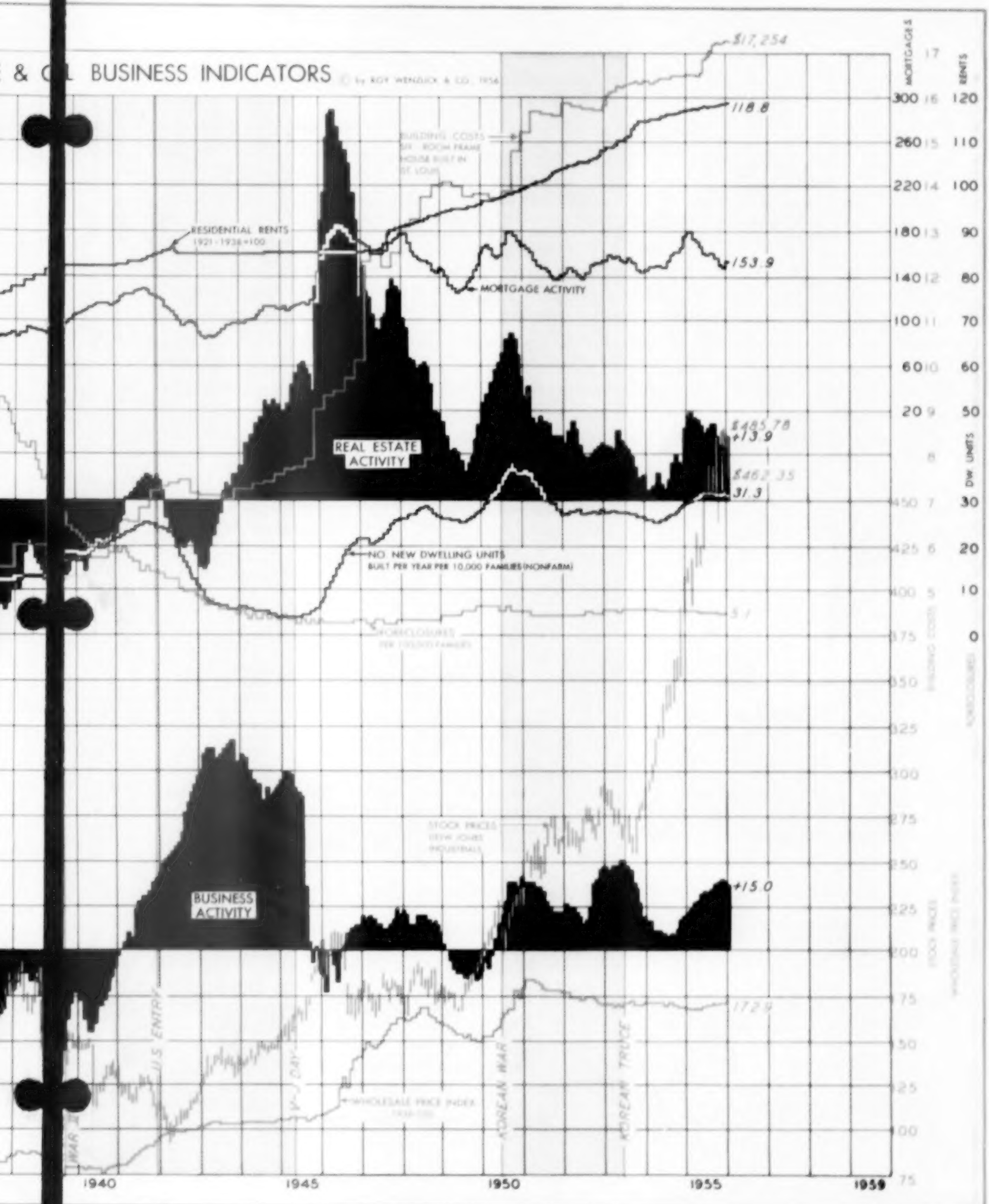


Date	Trend in selling price	Probable selling price of a house that sold for $12,000 in 1947-49 period	Date	Trend in selling price	Probable selling price of a house that sold for $12,000 in 1947-49 period
1947-49	100.0	$12,000	Oct. '48	104.5	12,540
1913	40.1	4,812	Oct. '53	119.7	14,360
1918	34.1	4,092	Oct. '54	122.3	14,680
Mar. '29	73.9	8,868	Jan. '55	122.9	14,750
May '32	34.8	4,176	May '55	123.5	14,820
Apr. '34	44.8	5,376	Oct. '55	124.7	14,965
July '37	40.1	4,812	Jan. '56	124.9*	14,990*
Apr. '38	42.8	5,136			
Mar. '41	40.1	4,812			

*Preliminary



REAL ESTATE & O[cut] BU[cut]
MORTGAGE ACTIVITY
RESIDENTIAL RENTS
REAL ESTATE ACTIVITY
NUMBER VOLUNTARY TRANSFERS
NO NEW DWELLING UNITS
NORMAL
REAL ESTATE ACTIVITY
BUSINESS ACTIVITY
BUSINESS ACTIVITY
Cleveland Trust Company
NORMAL
1917
1920
1925
1930
1935


E & C L BUSINESS INDICATORS
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BUILDING COSTS
RESIDENTIAL RENTS
1921-1938=100
MORTGAGE ACTIVITY
REAL ESTATE ACTIVITY
NO. NEW DWELLING UNITS
BUILT PER YEAR PER 10,000 FAMILIES (NONFARM)
FORECLOSURES
BUSINESS ACTIVITY
STOCK PRICES
WHOLESALE PRICE INDEX
U.S. ENTRY
V-J DAY
KOREAN WAR
KOREAN TRUCE
$17,254
118.8
153.9
$485.78
+13.9
$462.35
31.3
5.1
+15.0
172.9
1940
1945
1950
1955
1959
MORTGAGES
RENTS
DW UNITS
BUILDING COSTS
FORECLOSURES
STOCK PRICES
WHOLESALE PRICE INDEX

INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
February 1956

SIX-ROOM BRICK HOUSE
(FRAME INTERIOR)*
Content: 23,100 cubic feet
1,520 square feet
Cost 1939: $ 6,400
(27.7¢ per cubic foot; $ 4.21 per square foot)
Cost today: $17,873
(77.4¢ per cubic foot; $11.76 per square foot)
INCREASE OVER 1939 = 179.3%

FIVE-ROOM BRICK VENEER HOUSE*
Content: 24,910 cubic feet
1,165 square feet
Cost 1939: $ 5,440
(21.8¢ per cubic foot; $ 4.67 per square foot)
Cost today: $15,570
(62.5¢ per cubic foot; $13.36 per square foot)
INCREASE OVER 1939 = 186.2%

SIX-ROOM FRAME HOUSE*
Content: 24,288 cubic feet
1,650 square feet
Cost 1939: $ 5,671
(23.4¢ per cubic foot; $ 3.44 per square foot)
Cost today: $17,254
(71.0¢ per cubic foot; $10.46 per square foot)
INCREASE OVER 1939 = 204.2%

6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT
Content: 12,119 cubic feet
992 square feet
Cost 1939: $3,392
(28.0¢ per cubic foot; $3.42 per square foot)
Cost today: $9,701
(80.0¢ per cubic foot; $9.78 per square foot)
INCREASE OVER 1939 = 186.0%

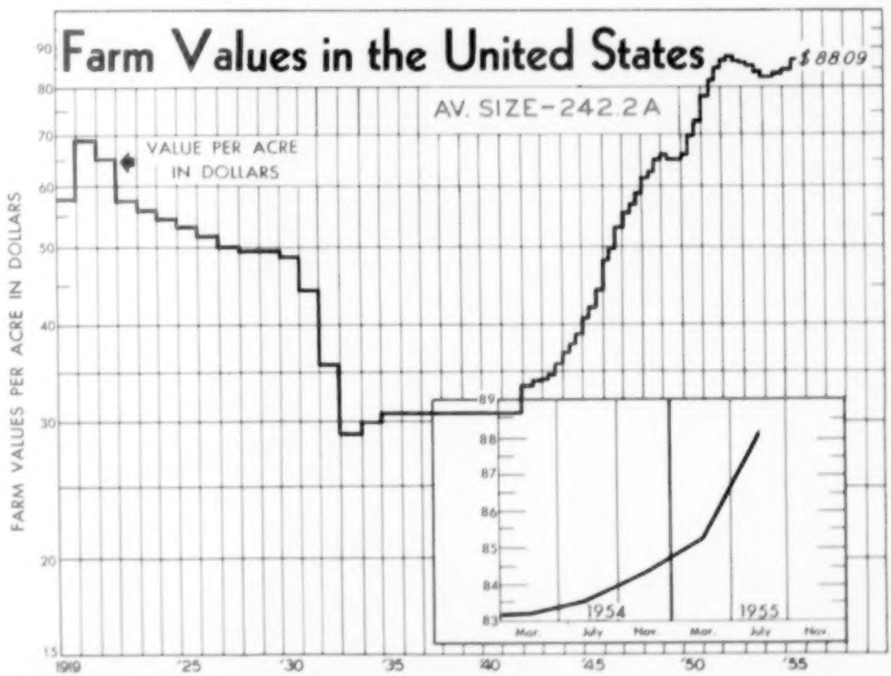
*Costs include full basement.

FARM LAND VALUES

The chart below shows a very interesting trend, especially so in view of the many comments regarding the income position of the farmer. Without going into both sides of that discussion, our guess is that it is being overemphasized, as so many other things are in an election year.

After declining mildly for about 2 years, farm land values began to rise. Since early 1954 they have risen almost 6%. (Latest figure, based on United States Department of Agriculture indexes, is $88.09 per acre average value in July 1955. The November 1955 figure is not scheduled for release until May 1956.) This rise has been brought on by farmers buying more land. Five years ago the average-size farm was 215.3 acres. Now it is 242.2 acres. This represents an increase of 27 acres, or 12.5%, in the size of the average farm. There are some that will argue that the price of farm products has fallen so low that the farmers who are able to have had to increase the size of their farms to keep their incomes level. This may be true in some cases, but another reason for increasing the size is to permit economical operation with the flood of new machinery that is moving on to the farms.

The rise in the average price of farm acreage may have been brought on by desperate attempts of farmers to maintain their net income, but to us it looks like the steady expansion of hardheaded business men with a healthy confidence in the future.



PURCHASING POWER OF THE DOLLAR

The purchasing power of the consumer's dollar has remained remarkably stable in the face of an increasing money supply and a rising rate of spending. This has been possible largely through sizable increases in production. As the supply of money rises or the rate of spending increases, inflationary pressures are built up. These pressures can be most easily relieved by an increase in the supply of goods. This is what has happened, and it is proof once more that a real rise in living standards can come only through increased output.

Wholesale commodity prices have likewise shown little up and down movement. Since early 1953 the index has varied in a narrow band between 173.7 and 170.8, a range of only 1.7%. A mild rise has been going on since June 1955. At that time the index was 171.5, and it is now 172.9.